

AGENDA ITEM 5
AUDIT RESOLUTION STATUS - INTERNAL AUDITS
(CURRENT YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2008

Audit Activity (Report Issue Date)	Responsibility	Description of Risk / Finding	Status/Comments
Review of Contracting Activities 07/07/08	Operations Support Services	<p>1.1 The Contracting Procedural Manual does not address the procedure for an informal solicitation if less than three bids are received.</p> <p>1.2 Operations Support Services should ensure that contracts processed through informal solicitation comply with the \$50,000 threshold, or ensure that two bids are from small businesses certified through Department of General Services.</p> <p>1.3 Not all contracts are maintained properly. For example, two contracts of 30 selected could not be located.</p> <p>1.4 Operations Support Services does not consistently maintain complete certifications and supporting documentation of all contract files.</p> <p>1.5 Some pertinent supporting documentation was missing in one of the solicitation and contract files we tested.</p> <p>1.6 Not all contracts and amendments are approved prior to the effective date.</p> <p>1.7 Thirty-three percent of the contracts reviewed were amended after the contract expired. Amending a contract post-expiration is, in effect, creating a new contract outside the normal contracting process.</p> <p>2.1 Not all invoices for contract services are date stamped or paid in a timely manner.</p>	<p>CONCUR. The Policy and Administration Section is in the process of revising the manual to address this issue.</p> <p>COMPLETE. Operations Support Services implemented procedures in March 2007 and will continue to implement additional procedures as needed, to ensure contracts comply with the dollar threshold.</p> <p>CONCUR. Operations Support Services will strengthen procedures to ensure contract files are maintained and accessible according to the retention schedule.</p> <p>COMPLETE. Operations Support Services implemented contract checklist procedures March 2007 to ensure all pertinent supporting documentation is retained in the file.</p> <p>CONCUR. Operations Support Services has implemented quality control review steps through the solicitation process, to ensure all pertinent documentation is filed.</p> <p>COMPLETE. Operations Support Services has already implemented processes to address this issue by working with the legal office to develop improved contract language.</p> <p>CONCUR. Operations Support Services has been increasingly proactive with providing advice and assistance regarding the contract process.</p> <p>COMPLETE. Fiscal Services has developed procedures to make sure invoices are date stamped and paid on time.</p>

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Review of Contracting Activities 07/07/08 (continued)	Operations Support Services	2.2 Not all invoices for contract services were approved by managers prior to payment. 2.3 Fiscal Services processed one payment to a contractor prior to an established contract.	COMPLETE. Fiscal Services has held meetings and training to ensure payables staff understand requirements and ensure invoices are approved by contract managers before payment. COMPLETE. Fiscal Services has held meetings and training to address the invoice payment process and ensure contracts are approved prior to payment.
Offsite Storage Facility Review 07/18/08	Operations Support Services	1.1 Colliers does not utilize a bar code inventory system to track furniture or surplus computer equipment which is required by contract for inventory stored at the R Street warehouse. 2.1 Colliers does not maintain written procedures for properties transferred in and out of the R Street warehouse. Various groups of contractor staff are granted unlimited access to the facility.	CONCUR. Operations Support Services will work with Colliers to use a bar code inventory system at the R Street warehouse. CONCUR. Operations Support Services will work with Colliers to develop procedures for controlling properties at the R Street Warehouse.
Review of Disability Retirement 07/24/08	Benefit Services	1.1 Staff needs to consistently document specific causes of delays which impact the timeliness of processing disability retirement applications. 2.1 Evidence of management review is not sufficiently documented to demonstrate the occurrence of these reviews. 2.2 Our review found only 20 of 40 applications sampled included evidence of a quality assurance review.	CONCUR. Staff will annotate on the case worksheet document or Customer Touch Point, the reason for the delay. CONCUR. Manager will annotate on the summary brief or Customer Touch Point, their review concurrence. CONCUR. Quality assurance reviews will be conducted at a minimum of 10 percent of approvals based on the amount reported from previous month. This will be included in procedures.

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Alternative Investment Management External Partner Review 07/30/08	Investment Office	<p>2. Our review of the General Partners and CalPERS capital call and disbursement records showed a recording error in which a capital call of \$113,630 should have been recorded as a return of capital.</p> <p>5. Our review of the General Partners measures to safeguard the partnership's investment information found the need for a provision for requiring a disaster recovery plan.</p>	<p>CONCUR. The \$113,630 capital call discrepancy was discovered and corrected in June 2005. The General Partner reviewed this matter with CalPERS auditors and reported no additional action would be required.</p> <p>CONCUR. Since May 2008 the General Partners have had several meetings and have included in the response letter, a current draft of the Disaster Recovery Plan for review.</p>
Review of Corporate Governance External Partner 08/04/08	Investment Office	<p>3.1 Taiyo Pacific Partners only performs complete back-ups on the last Friday of every month and stores these backups off site. Complete backups should be performed weekly to ensure that in occurrence of a disaster, information is readily available to ensure business activities will continue uninterrupted.</p> <p>3.2 Taiyo Pacific Partners' server room does not have a fire suppression system to protect it in the case of a fire. To mitigate the risk of fire and avoid water damage a dry fire suppression should be installed.</p>	<p>COMPLETE. Daily differential backups are always executed Monday through Thursday. As such, the files that have changed are backed up daily. Every Friday a complete backup is performed. At the time of the inquiry, complete backups were stored off-site as of the last Friday of every month. They are now keeping all weekly complete backups off-site. End of month backup tapes are kept indefinitely.</p> <p>CONCUR. A site survey has been scheduled for a fire suppression system to be installed in their server room after obtaining required approval. Taiyo Pacific Partners is also exploring more comprehensive solutions such as an offsite redundant server.</p>

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Review of Corporate Governance External Partner 08/04/08 (continued)	Investment Office	<p>3.3 Taiyo Pacific Partners does not have any offsite servers which would provide backup and uninterrupted business activities in case of a disaster or malfunction at the headquarters.</p> <p>3.4 Taiyo Pacific Partners' active directory does not have any password security limitations. They should implement password restrictions to prevent any unauthorized use of passwords and increase information security</p> <p>11.1 Management fees for calendar year 2006 and 2007 were recalculated. Based on the partnership agreement there was a variance of \$23,685, where Taiyo Pacific Partners received less than the recalculated amount.</p>	<p>CONCUR. Taiyo Pacific Partners is currently reviewing offsite real-time-replication failover solutions and have had several discussions with various vendors. An offsite redundant system solution will be implemented later this year. In the interim, the risk is mitigated by the duplication of relevant files and the purchase of additional servers which would allow recovery from the backup tapes at an offsite location.</p> <p>CONCUR. Based on the recommendations, Taiyo Pacific Partners will re-evaluate their policy regarding the active directory password security configuration.</p> <p>CONCUR. Due to certain complexities in the management fee calculation, the external manager used a different base for its calculation than the auditors, resulting in a lower calculated amount. Taiyo plans to discuss this matter with CalPERS investment team.</p>
Review of Global Equities External Partner (Dimensional) 08/04/08	Investment Office	<p>2.1 There is no specific language in the partnership agreement regarding the time requirement to trim down securities exceeding the 5 percent maximum allocation. One security in January 2006 and one in March 2007 exceeded the maximum allocation percentage these securities were trimmed down in March 2006 and May 2007, respectively.</p> <p>11.1 Per review of the sign off sheet which represents the reconciliation of investment market value between Dimensional Found Advisors and State Street Bank, there were variances within the informally established ± 20 percentage basis points tolerance level. However, the tolerance level cannot be validated as it is not stated in the partnership agreement.</p>	<p>CONCUR. The contract has no specific language regarding the time requirement as noted. However, Dimensional has internal guidelines for returning to below the 5 percent threshold. Dimensional discussed its guidelines with the Investment Office, which concurred with its approach.</p> <p>CONCUR. Dimensional Fund Advisors concurs that the tolerance level is not established in the investment Management Agreement but has been indicated on the sign-off sheet sent to Dimensional by State Street Bank.</p>

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Public Agency Resolutions Management Review 08/11/08	Employer and Member Health Services	<p>1.1 Our review found that Employer and Member Health Services' written procedures do not provide enough detail with respect to developing and entering contribution formulas into applicable information systems.</p> <p>1.2 According to staff, peer reviews are performed after resolutions are entered into information systems. Although secondary reviews may occur, they are not documented and we are unable to verify them.</p> <p>1.3 Employer and Member Health Services did not consistently maintain documentation of new agency resolutions, check sheets and other related documentation for 14 of 22 tested public agencies. Employer Member Health Services should provide staff training to ensure resolution files are consistently maintained.</p> <p>2.1 Employer and Member Health Services does not have processes to identify agencies that need additional educational outreach or training. Employer and Member Health Services does not proactively review or monitor agency compliance with eligibility and enrollment program requirements.</p>	<p>CONCUR. Employer and Member Health Services supports the recommendations and envisions the expansion of these procedures will enhance training and assist staff succession. The procedures will incorporated by March 31, 2009.</p> <p>CONCUR. Employer and Member Health Services will implement by August 15, 2008 another element of review by a peer/lead/manager to ensure that documentation is in place.</p> <p>CONCUR. Employer and Member Health Services supports the recommendations and envisions the expansion of these procedures will enhance training and assist staff succession. The procedures will incorporated by March 31, 2009.</p> <p>CONCUR. Employer and Member Health Services will develop and implement by March 1, 2009, a regular review for contracting agencies to verify member contribution amounts and check for compliance or identify resolutions. This review will also solicit employers on additional educational needs. It will continue to process annual employee contribution reports asking employers to certify the contributions for accuracy. Implementation is planned for January 31, 2009.</p>

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Public Agency Resolutions Management Review 08/11/08 (continued)	Employer Member Health Services	2.2 Employer Member Health Services does not have written procedures for ensuring adequate correction of audit findings such as roles and responsibilities, tracking and reporting of finding status, and the level of support required from the employer to correct issues.	CONCUR. Employer Member Health Services will develop and implement by March 1, 2009, a regular review for contracting agencies to verify member contribution amounts and check for compliance or identify resolutions. This review will also solicit employers on additional educational needs. We will continue to process annual employee contribution reports asking employers to certify the contributions for accuracy. Implementation is planned for January 31, 2009.
Compensation Review Process 08/13/08	Employer Services	<p>1.1 The Compensation Review Unit does not have written procedures for handling general correspondence.</p> <p>1.2 There are no current guidelines in place to ensure staff is independent from each member case assigned for review.</p> <p>1.3 The Compensation Review Unit does not have access controls to ensure the accuracy and integrity of spreadsheets used for tracking and statistical purposes.</p> <p>1.4 Some of the Compensation Review Unit's target goals on the Quarterly Status Report do not reflect the actual target goals used by the Unit.</p>	<p>CONCUR. Employer Services will ensure that procedures for handling general correspondence are developed and implemented by the end of the calendar year 2008.</p> <p>CONCUR. Employer Services will develop conflict of interest guidelines and ensure that all staff is aware of the guidelines by the end of calendar year 2008.</p> <p>CONCUR. Employer Services will implement access controls to ensure the accuracy and integrity of the spreadsheets used for tracking and statistical purposes by obtaining access limits for staff and providing read and write access to a limited number of individuals by the end of calendar year 2008.</p> <p>CONCUR. The Unit has revised the target goals in the Division's quarterly report to reflect the actual target goals for the unit. The accomplishment of the goals for the unit will be reflected in the first quarterly report of Fiscal Year 2008/09.</p>

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Compensation Review Process 08/13/08 (continued)	Employer Services	<p>2.1 Our review found 20 percent of correspondence letters exceeded the 10 business day target. Some outgoing correspondence letters had no evidence of management review prior to being mailed.</p> <p>2.2 Our review found 18 percent of member cases were not processed within the target goal. In addition, three separate cases were undeterminable due to missing dates in the Pension Assessment System.</p> <p>2.3 Although progress is being made in reaching the performance goal of contacting 100 percent of employers within 30 days to initiate resolution of Office of Audit Services employer reviews, an additional management position is needed to achieve this goal.</p>	<p>CONCUR. Employer Services will strengthen its monitoring of performance target goals by developing a process to document the date that correspondence comes into the unit and the date it is completed. In addition, reviews of outgoing correspondence will be enhanced by incorporating peer reviews of the correspondence process, as well as maintaining the reviews performed by management.</p> <p>CONCUR. Employer Services was experiencing challenges in meeting the target goals due to staff vacancies. It has currently filled one vacant position with plans to fill another by October 2008, which will increase its ability to meet their target goals. In addition, they will ensure that all staff is trained on the enhancements made to the Pension Assessment System by August 2008.</p> <p>CONCUR. To ensure that audit issues which impact Employer Services are addressed and closed within the prescribed timeframe, their plans call for a specialist position to be filled by November 2008.</p>
Internal Derivatives Usage Across Asset Classes 08/29/08	Investment Office	<p>1.1 Our review found no established or documented procedure for the involvement and oversight by Senior Investment Officer in the use of derivatives.</p> <p>1.2 Our review found difficulty in obtaining a comprehensive picture of all areas of exposure to derivative strategies. In addition, not all derivative activity is governed by the existing policy. For example, derivative activity occurring in funds covered by Limited Liability contracts is not covered by the policy.</p>	<p>CONCUR. The Investment Office will establish and document a procedure that will include a review by the Senior Investment Officers of the use of derivatives in their asset class.</p> <p>CONCUR. A procedural document would be useful in detailing how each asset class will control and monitor the use of derivatives. The Investment Office will include applicable operational control language within its internal procedure manuals consistently across asset classes.</p>

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Internal Derivatives Usage Across Asset Classes 08/29/08 (continued)	Investment Office	<p>2.1 Our review found the need for a comprehensive report reflecting all derivative holdings to gauge the nature and aggregate risk of derivative activities.</p> <p>2.2 Our review found the need for a procedure by which internal and external investment managers keep the appropriate staff informed of planned derivative transactions and any other detailed information needed to produce a comprehensive derivative report.</p> <p>2.3 The Investment Office does not have a reliable, accurate report on counterparty exposure which is especially important for over-the-counter or non-exchange trades.</p> <p>2.4 Although the Investment Office established a separate risk management function, no group, independent of the investment managers conducting derivative activities, is responsible for monitoring the implementation of and compliance with established policies and procedures for derivative activities.</p> <p>2.5 As Investment Office's needs shift from monthly to daily reporting, there are concerns with existing monitoring capabilities for external managers and non-exchange traded derivatives, custodians reporting capability, constraints by the current trading system to handle more sophisticated instruments, and sufficiency of timely risk reporting.</p>	<p>CONCUR. The Investment Office will work with the master custodian (State Street) to develop a comprehensive report reflecting all derivative holdings.</p> <p>CONCUR. The Investment Office will include procedures to monitor and control derivative transactions. Working with the Legal Office, the Investment Office will evaluate options to provide the best information possible with the context of existing contracts, including developing comprehensive reports with the help of the custodian.</p> <p>CONCUR. The Investment Office recognizes the need for a robust counterparty risk report. We will continue to leverage the existing counterparty report provided by Risk Management System with the long term goal being to gather data to create a more comprehensive, independent and timely counterparty report.</p> <p>CONCUR. The Investment Office will establish asset class specific procedures for use of derivatives. The Investment Office will coordinate this effort with the Office of Enterprise Compliance, to ensure the process allows for independent monitoring.</p> <p>CONCUR. The Investment Office recognizes that derivative trading increases the need for risk, operational, and compliance infrastructure. The Investment Office is addressing the completeness and accuracy of data used to determine the effects of derivatives on the fund and will continue to update its derivative procedures as new strategies emerge. The Investment Office will continue working with the Office of Enterprise Compliance to address issues related to compliance of the new investment vehicles.</p>

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Review of Self-Funded Rate Development 08/29/08	Health Plan Administration	<p>1.1 Although Office of Health Plan Administration has several tools to guide the rate development process, it lacks formal comprehensive policies and procedures that would allow for transparency.</p> <p>1.2 Office of Health Plan Administration does not have a documented quality control process for the rate development process.</p> <p>1.3 CalPERS Health Actuary does not have a separate rate developed for each self-funded health plan to validate data provided by external sources.</p> <p>2.1 Office of Health Plan Administration does not have a formal approved plan on how to address excess reserves.</p> <p>2.2 While Office of Health Plan Administration informally strives to maintain sufficient funds to cover benefits and maintain an adequate reserve, it has not formalized this goal or developed formal financial plans to establish financial targets and performance measures.</p>	<p>CONCUR. Existing procedures will be expanded to be comprehensive.</p> <p>CONCUR. A quality control process is in place, but it will be written into the procedures. This will include the validation process by Health Policy and Program Support, the CalPERS Health Actuary, and an external Actuarial Consulting firm of the information provided by the Pharmacy Benefit Manager and the Medical Administrator.</p> <p>CONCUR. The CalPERS Health Actuary will develop a separate rate for each health plan. Health Policy and Program Support will document validation of data provided by external sources.</p> <p>CONCUR. Office of Health Plan Administration will work with Actuarial and Employer Services Branch, Health Policy and Program Support, and an external Actuarial Consulting firm to develop a plan to manage excess reserves.</p> <p>CONCUR. Office of Health Plan Administration will formalize its financial goals and objectives for the self-funded health plans and will assess the programs performance periodically to meet these goals.</p>